

Causes of change in inequality of consumption

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Inequality in Spanish household income has increased during the crisis. However, in terms of consumption, inequality decreased. Accordingly, while wealthier families (10% of households with higher average consumption per equivalent adult) reduced spending by 17.2% between 2007 and 2015, those economically disadvantaged (40% less consumption) reduced it only by 7.6%. This discrepancy is belied, on the one hand, by various mechanisms which have helped families on lower incomes to offset the consumer spending related with the loss of wage income and, on the other hand, trends which have driven a greater adjustment in the outgoings of better off households. In any case, some of those mechanisms present high social costs and some future reversion would be welcome. The coming challenge lies in this occurring without any increase in expenditure inequality.

What factors might explain the reduction in the inequality of consumption? In a recent study we have identified at least three potentially key variables. The first has been the family reunification that has occurred during the crisis. In particular, the information shows that in recent years, average household size has decreased. This forms part of a trend that also affects other developed economies. Nonetheless, in Spain we have seen a slowdown in this process during the crisis, particularly in the case of economically disadvantaged households. In the latter, the average household size fell a little over 1%, compared with a 6.3% reduction in the case of families with higher levels of consumption. As a result, the fall in income during the crisis would have obliged a part of the population to postpone the time to form a household or even to drive them to re-enter shared accommodation. This choice means that fixed everyday costs can be shared among more members (economies of scale), thus limiting the adjustment in expenditure per person which becomes necessary in the consumption of certain services. So less well off households would have been more inclined towards this way of offsetting the effects of the crisis. Moreover, in line with the above, another factor worth highlighting is that the lower decrease in the size of the household at levels with lower expenditure is explained by the higher increase in the number of members over 18 years. This becomes particularly important given that if there are earnings due to economies of scale in the consumption of a particular item, these will probably be higher the greater number of peer members there are in a family unit.

A second factor that may explain why inequality in consumption has decreased is the relative improvement in the education of the main breadwinner in the households with lower expenditure. In this regard, it is possible that the latter has permitted better financial decisions, increasing savings in times of prosperity and reducing the impact on consumption. The third factor to consider is the greater increase in the number of women as heads of wealthier households. Here, there is plenty of evidence to show that the households headed by women tend to prioritise spending on staple goods or activities, which would have amplified the fall in consumption of durable goods in better off households. Lastly, another factor that could explain the greater adjustment in the expenditure of better off families is their substitution of public goods and services in place of private ones.

Looking forward, it should be taken into account that some of the factors mentioned above are temporary and are related with the economic cycle, for which reasons the recovery being observed at the moment

could lead to a deterioration in the inequality of consumption. Similarly, while family reunification may have offset the fall in expenditure in economically disadvantaged households, there are other social and economic costs, for which reason a reversion would be welcome. The challenge lies in providing mechanisms to promote the formation of new households without bringing about a significant decrease in consumer spending per family unit.

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